

TENNESSEE REGULATORY AUTHORITY

Ron Jones, Chairman
Deborah Taylor Tate, Director
Pat Miller, Director
Sara Kyle, Director



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460 James Robertson Parkway
Nashville, Tennessee 37243-0505

November 14, 2005

Ron Jones, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Re: Review of Nashville Gas Company's IPA Relating to Asset Management Fees
Docket Number: 05-00165

Dear Chairman Jones,

Please find enclosed for filing in the above-referenced matter *Audit Staff's First Discovery Requests to Nashville Gas Company*. Please call me at extension 203 if you have any questions.

Sincerely,

Aaron Rochelle
Counsel, Authority Staff

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:

**REVIEW OF NASHVILLE GAS
COMPANY'S IPA RELATING TO ASSET
MANAGEMENT FEES**

**DOCKET NO.
05-00165**

AUDIT STAFF'S FIRST DISCOVERY REQUESTS TO NASHVILLE GAS COMPANY

Pursuant to the Procedural Schedule established at the November 2, 2005 Status Conference in this docket and Tenn. Comp. R. and Reg. 1220-1-2-.11, the Audit Staff of the Tennessee Regulatory Authority ("TRA" or "Authority") requests that Nashville Gas Company ("Nashville Gas" or the "company"), a division of Piedmont Natural Gas Company, respond to the following discovery requests to be answered under oath by an officer or agent of the company on or before December 14, 2005.

INSTRUCTIONS

1. For each document responsive to this request that is withheld under a claim of privilege or work-product immunity, provide a statement identifying: (a) each author; (b) each addressee; (c) each person to whom the document was sent; (d) the custodian of the original and each copy of the document as of the date of your response to this request; (e) the exact location of the original and each copy of the document as of the date of your response to this request; (f) the title and date of the document; (g) the number of pages in the document; (h) the nature and subject matter of the document sufficient to accurately identify the document; (i) the privilege or immunity claimed and facts giving rise to that privilege or immunity; and (j) the specific numbered request to which the document is responsive.

2. If you object to any request on grounds other than privilege or work-product immunity, state in detail the basis for the objection.

3. If you contend that a particular request, or a definition or an instruction applicable thereto, is ambiguous, such claim shall not provide a basis for refusing to respond. You are instructed to set forth the allegedly ambiguous language and the interpretation of that language that you have adopted in responding to the request in question.

4. You should produce every copy of a document that is not identical to the original of the document requested, including copies with marginalia.

5. You should either organize and segregate the documents you produce according to the specific numbered requests listed below to which the documents are primarily responsive, and identify the source of each document, or if they are being produced in their original form, identify where the document was located, including but not limited to what room, file cabinet and drawer, what persons have access to that area and produce a copy of the file folder jacket in which the document was contained.

6. You should produce all documents requested below that are within your possession, custody or control, including documents within the possession, custody or control of your present or former attorneys, accountants, representatives, consultants, agents, officers, directors, employees, investigators, or anyone else acting on your behalf.

7. With respect to each document otherwise responsive to this request that has been lost, discarded or destroyed, identify (a) each author; (b) each addressee; (c) the date, title and subject matter of the document; (d) the date of the disposal; (e) the manner of the disposal; (f) the reason for the disposal; (g) each person who authorized the disposal; (h) each person who carried out the disposal; and (i) each person with any knowledge concerning the disposal.

8. With respect to each document otherwise responsive to this request that is no longer in your possession, custody or control, identify (a) each author; (b) each addressee; (c) the date, title and subject matter of the document; (d) the last date on which the document was in your control; (e) each person now in control of the document; (f) the reasons for the disposal or release of the document; and (g) each person with any knowledge concerning the document's disposal or release.

9. The present tense includes the past and future tenses.

10. Whenever appropriate, the singular form of a word should be interpreted in the plural, and the plural form should be interpreted in the singular.

11. The connectors "and" and "or" shall be construed either disjunctively or conjunctively as necessary to bring within the scope of these discovery requests all responses that might otherwise be construed to be outside of their scope.

12. Documents should be produced in a manner that identifies the files of the entity and person from which they were produced.

13. In responding to this Request, preface each answer or document by the Request number to which it is addressed. If you are unable to answer a Request fully, submit as much information as is available, explain why your answer is incomplete, and state the source or sources from which a complete answer may be obtained. If an accurate answer cannot be obtained, from books or records, your best estimate, so identified, should be submitted indicating the source of the estimate.

14. These discovery requests are intended to be continuing requests, requiring you to supplement your production or answers with documents or answers within the scope of the requests that may be acquired by you, your agents, your attorneys or your representatives at any time following the date of your original response.

DEFINITIONS

1. The term "document" is used in its broadest sense and means and includes graphic matter of any kind or nature, whether written, printed, typed, recorded, filmed, punched, transcribed, taped or produced or reproduced by any means. The term "document" means and includes, without limitation, all appraisals, records, personal notes, e-mails, cablegrams, telexes, facsimiles, studies, calendars, day-timers, diaries, desk calendars, appointment books, agendas, minutes, pamphlets, envelopes, telephone messages, graphs, records of meetings, summaries or records of telephone conversations, summaries or records of personal conversations or interviews, summaries or records of meetings or conferences, tabulations, analyses, evaluations, projections, work papers, statements summaries, reports, journals, billing records, invoices, correspondence, letters, financial statements, balance sheets, accounting entries, tax returns, loan documents, and/or all written or recorded matter of any kind whatsoever. The term "document" also means and includes every other means by which information is recorded or transmitted including, without limitation, photographs, videotapes, tape recordings, microfilms, punchcards, computer programs, printouts, computer disks or diskettes, software, all recordings made through data processing and/or computer techniques, and the written information necessary to understand and use such materials. The term "document" is further defined to mean the original, any drafts, and any non-identical copies (i.e., those bearing notations, marks, or marginalia not found on the original document). Please note that records of electronic mail, whether active, archived or otherwise recoverable, are specifically included within the above definition.

2. The term "person" means any natural person, or any corporation, partnership, or association of persons.

3. The term "you" shall mean and include: Nashville Gas Company and/or any and all officers, owners, employees, agents, consultants,

4. The term "identify" shall mean the following when referring to:
- a) a natural person, means to state his/her full name and present or last known address, telephone number, date of birth and his/her present or last known business position and affiliation;
 - b) A corporation, partnership or other business entity, means to state the full name and last known address of the entity;

- c) A document means to state its date, its author, its recipient and his/her address and the names of each of its present custodians; and
- d) When used in connection to a factual situation or allegation means to state with particularity and specificity all facts known which bear upon or are related to the matter which is the subject of the inquiry, using the simplest and most factual statement of which you are capable.

5. The term "employee" includes any person, including all executives, managers, supervisors, and professionals, who are or have been employed on a full or part-time basis.

6. The term "relating to" means constituting, containing, embodying, reflecting, identifying, describing, incorporating, referring to, dealing with or in any way in connection with or pertaining to.

7. The connectors "and" and "or" shall be construed either disjunctively or conjunctively as necessary to bring within the scope of the discovery requests all responses that might otherwise be construed to be outside of its scope.

8. The term "complaint" means any expression, written or oral, conveying dissatisfaction to an entity.

INTERROGATORIES

Please answer the following specific Interrogatories under oath and in accordance with the preceding Instructions and Definitions:

Interrogatory No. 1:

Provide the percentage of reserve margin in excess of the maximum peak day firm demand capacity contracted for by Piedmont on behalf of Nashville Gas Company for each of the plan years beginning July 1, 1996 through June 30, 2005. Include both transportation capacity and storage capacity.

Interrogatory No. 2:

Provide the dollar amount of proceeds received by Nashville Gas for the release of off-peak unutilized transportation and storage capacity in the secondary market for each of the plan years beginning July 1, 1996 through June 30, 2005. Provide the percentage of released capacity

to total subscribed capacity purchased from the pipeline for each plan year during the same time period.

Interrogatory No. 3:

Provide the methodology and formula Piedmont uses, in planning for future capacity requirements, to calculate the level of peak day capacity plus reserve margin sufficient to serve its firm customer needs and to maximize savings available under Nashville's Incentive Plan.

Interrogatory No. 4:

What percentage of reserve margin above the projected maximum peak day capacity requirement does the Company believe is necessary to protect the needs of its firm customers?

Interrogatory No. 5:

What were the financial results of Piedmont's participation in the futures market on behalf of Nashville Gas for each plan year, beginning July 1, 1996 through June 30, 2005? Include in your answer the net savings and losses resulting from such participation in each plan year.

Interrogatory No. 6:

Under Nashville Gas' Gas Supply Incentive Compensation Program, for each incentive plan year beginning July 1, 1996 through June 30, 2005, provide the number of Nashville Gas employees and Piedmont employees (whose compensation is allocated or otherwise charged to Tennessee operations) who received incentive pay and the total dollar amount of incentive pay charged to Tennessee operations.

Interrogatory No. 7:

Does Piedmont utilize an asset manager for any or all of its regulated companies in North Carolina and South Carolina? If so, answer the following questions:

- (1) Is (are) the asset manager(s) selected using an RFP process?
- (2) Does the RFP process(es) differ from the process followed in Tennessee? If so, please provide a detailed explanation of the difference(s).
- (3) Are asset management fees included in any of the incentive plans in North Carolina or South Carolina? If so, identify the plan(s), the effective date of each relative to the inclusion of asset management fees, and the relevant provision in each plan that addresses the treatment of these asset management fees.
- (4) For each plan identified in sub-paragraph (3) above, explain the sharing mechanism that addresses asset management fees and the percentage of such fees that are retained by Piedmont.

Interrogatory No. 8:

Regarding the asset management function:

- (1) Identify the reasons, including any underlying studies or other sources, that led Piedmont to seek the expertise of an outside asset manager to manage and maximize profits produced by Nashville Gas assets.
- (2) Identify factors, such as the level of complexity, that make transactions made by asset managers different from transactions made by the staff of Piedmont's Gas Supply Department, considering Piedmont is a multi-state natural gas distributor.
- (3) Does asset management require skills which differ from skills necessary to manage and conduct the day-to-day activity of the gas company? Explain.
- (4) Provide Piedmont's best estimate of the annual proceeds Nashville Gas would receive by using its best efforts to market the unutilized assets of Nashville Gas

(those assets currently being managed by an asset manager). Explain the basis of the estimate.

Interrogatory No. 9:

Provide a list of the functions of an asset manager and how these benefit Nashville Gas and its consumers.

Interrogatory No. 10:

Provide a list of Piedmont Gas Supply Department employees, by title and duties performed, whose salary is allocated or otherwise charged to Tennessee operations, at July 1st of each year, beginning July 1996 through and including July 2005.

Interrogatory No. 11:

State all facts, bases, grounds, and reasons that the Company contends support the sharing percentages established in the Capacity Release mechanism of Nashville Gas's incentive tariff. For each fact, basis, ground, and reason stated, explain why the fact, basis, ground, or reason supports these sharing percentages.

Interrogatory No. 12:

At the time the Performance Incentive Plan was established, did Nashville Gas incur additional employee and/or other expenses in order to maximize savings under the plan? If so, list those areas of expense and the approximate cost to Nashville Gas.

Interrogatory No. 13:

Explain in detail the extent to which regulated natural gas utilities use outside asset managers. In your answer, describe such usage as of April, 1996 and describe the evolution of such usage through the present.

Interrogatory No. 14:

Identify each person whom you expect to call as an expert witness at any hearing in this docket, and for each such expert witness:

- (1) Identify the subject area in which the witness is to be offered as an expert;
- (2) Provide complete background information, including any and all experts' Curriculum Vitae.
- (3) Identify any matter in which the expert has testified by specifying the name, docket number and forum of each case, the dates of the prior testimony and the subject of the prior testimony, and identify the transcripts of any such testimony;
- (4) Identify all documents or things shown to be delivered to, received from, relied upon, or prepared by any expert witness, which are related to the witness(es)' expected testimony in this case, whether or not such documents are supportive of such testimony, including without limitation all documents or things provided to that expert for review in connection with testimony and opinions; and
- (5) Identify any exhibits to be used as a summary of or support for the testimony or opinions provided by the expert.

REQUESTS FOR PRODUCTION

In accordance with the preceding Instructions and Definitions, please produce the documents and things described in the following paragraphs:

Request for Production No. 1:

Provide a complete copy of all incentive performance plans that are in effect in North Carolina and South Carolina for Piedmont Natural Gas and its regulated affiliate companies.

Request for Production No. 2:

Provide a copy of each commission order that approved the incentive plans referenced in Request for Production No. 1 above.

Request for Production No. 3:

Provide any and all written correspondence, minutes, notes, emails etc. that demonstrate that Piedmont and/or Nashville Gas was considering the use of an outside asset manager at the time Nashville Gas filed its *Application to Establish a Performance Incentive Plan* on April 22, 1996 in Docket No. 96-00805.

Request for Production No. 4:

Provide any and all documentation or testimony provided in TRA Docket No. 96-00805 demonstrating that asset managers were commonly used in the regulated natural gas industry at the time Nashville Gas filed its *Application to Establish a Performance Incentive Plan* on April 22, 1996. .

Request for Production No. 5:

Provide a copy of all asset management contracts, agreements or arrangements entered into between Piedmont on behalf of its regulated affiliate companies and the selected asset managers in North Carolina, South Carolina and Tennessee.

Request for Production No. 6:

Produce any and all documents referred to or relied upon in responding to Audit Staff's first discovery requests.

Request for Production No. 7:

Produce any and all documents upon which you or any of your witnesses intend to rely at the hearing in this matter.

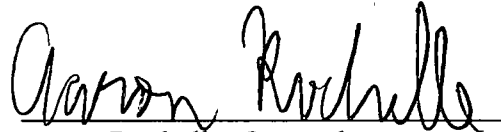
REQUESTS FOR ADMISSIONS

For the purpose of this proceeding only and subject to all pertinent objections to admissibility which may be interposed at the hearing, please admit the truth of the following matter of fact:

Request for Admission No. 1:

The use of an outside asset manager by a regulated natural gas utility was unheard of at the time Nashville Gas filed a petition to establish a Performance Incentive Plan in April 1996.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Aaron Rochelle", written over a horizontal line.

Aaron Rochelle, Counsel
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, Tennessee 37243-0505
(615)741-3191
Dated: November 14, 2005

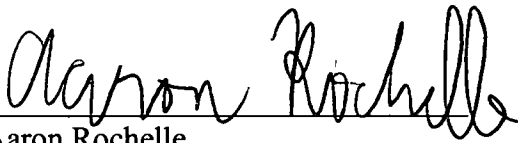
CERTIFICATE OF SERVICE

I, Aaron Rochelle, hereby certify that I have served a copy of the foregoing Discovery Requests on the following persons by hand delivery or by depositing a copy of the same in the United States Mail, postage prepaid, addressed to them at the addresses shown below, this 14th day of November, 2005.

R. Dales Grimes
Bass, Berry & Sims, PLC
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238-3001

James H. Jeffries IV
Nelson, Mullins, Riley & Scarborough, L.L.P.
Bank of America Corporate Center, Suite 2400
100 North Tryon Street
Charlotte, North Carolina 28202-400

Joe Shirley
Consumer Advocate and Protection Division of the Office of the Attorney General
Post Office Box 20207
Nashville, Tennessee 37202



Aaron Rochelle